### LENDER TRAINING

A review of Homeownership Opportunities Products
Mortgage Credit Certificate (MCC),
Next Home & Next Home/MCC Combo



# HOMEOWNERSHIP OPPORTUNITIES DEPARTMENT (HOD)

- We are an Indiana agency under the leadership of Lt. Governor Ellspermann
- Promote homeownership in the State of Indiana
- Provide homeownership solutions through various programs
- We do not CREDIT underwrite We review:
  - Tax Compliance Underwriting
  - Acquisition Limits
  - Income Limits
    - Include all sources of income
  - Occupancy of the Subject Property
- Located at:
  - 30 South Meridian Street, Suite 1000, Indianapolis, Indiana 46204



# THE HOMEOWNERSHIP OPPORTUNITIES DEPARTMENT

**HOD Director-**

Kim Harris @ kiharris@ihcda.in.gov 317-233-5367

**HOD Manager**–

Lee McClendon @ <u>Imcclendon@ihcda.in.gov</u> 317-232-2582

**HOD Account Manager-**

Kristine Clark @ KClark3@ihcda.in.gov 219-616-0990

#### **Underwriters:**

Tom Pearson @ tpearson1@ihcda.in.gov	317-232-0210
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Sara Hawk @ shawk@ihcda.in.gov	317-233-0702
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#### **Operations:**

Jason Cane @ jca	<u>ane@ihcda.in.gov</u>	317-233-3895
Marquet Smith @	msmith@ihcda.in.gov	317-232-3566

**US Bank Help Desk** 



# **THE PROCESS**

#### All Products

- Lender registers the loan in IHSF
- Prepares application package, mails to IHCDA
- Provides the reservation fee to IHCDA
- Prepares closing package <u>for closing</u>, mails to IHCDA after loan closed

#### Next Home, Next Home/MCC Combo

- Sold to US Bank
- Certificate is mailed to borrower and lender

#### **MCC**

- Certificate is mailed to borrower and lender
- Can be resold



# **PROGRAM FEES**

#### MCC

•Reservation Fee: 0.50%

Commitment Extension Fee: .25%

Late Submission Fee: .25%

•Reinstatement Fee: \$500

Applies after loan has been

"terminated"

•Re-Issuance of MCC: .25%

Based on new, refinanced, loan

amount

# Next Home & Next Home/MCC Combo

Reservation Fee: 0.125%

Extensions

•Jason Cane @ 317-233-3895

-OR-

ExtensionRequests@ihcda.in.gov

\*\* ALL FEES ARE BASED OFF OF THE FINAL LOAN AMOUNT AND ARE DUE PRIOR TO FINAL APPROVAL



# THE APPLICATION PACKAGE

# **Application Package**

- Once the application package is received it's logged into the IHCDA system
- The application package is then distributed to an underwriter
- The underwriter updates the status of the application
  - Incomplete
    - Outstanding Conditions
  - Approval
    - Closing Conditions
  - Rejection

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## SUBMITTING THE APPLICATION PACKAGE

Always refer to the NH-1/MCC1 for a list of all documents that should be included in the application package

- Typed prelim 1003
- MCC/NH All, fully completed but not signed
- Current Paystubs for every working individual, 18 years and older
- Zero Income Affidavit (if there is a household member with \$0 income)
- Certified tax return transcripts utilizing IRS form 4506T
- Divorce Decrees/Child support court orders, if applicable
- Purchase Agreement
- Appraisal
- IHCDA University Certificate (If applicable)

Allow 24-48 hours for underwriter responses on application files

\*\*YOU MUST HAVE A "COMMITTED" STATUS

STAGE FROM IHCDA BEFORE YOU CAN CLOSE!\*\*



# THE CLOSING PACKAGE

# Closing Package

- Closing package is logged into the IHCDA system when received
- The closing package returns to the application underwriter
- The underwriter updates the status of the application
  - Incomplete
    - Outstanding Conditions
  - Approved for Purchase

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### SUBMITTING A CLOSINGPACKAGE

Always refer to the MCC7/NH7 for a list of all documents that should be included in the closing package

- Final 1003, signed
- MCC/NH All, fully signed IHCDA to receive original signatures
- HUD-1, fully signed
- HUD-1 Initial/Itemized Fee Worksheet (First Home)
- IHCDA 2<sup>nd</sup> Mortgage
- IHCDA 2<sup>nd</sup> Promissory Note
- Copy of Note & pg.1 of 1<sup>st</sup> Mortgage (MCC ONLY)
- Any conditions allowed to go to closing

Allow 24-48 hours for underwriter responses on closing files



# **GETTING YOUR PACKAGE APPROVED**

It's easier than you may think! By following these easy steps approval is fast and painless!

 Mail or hand deliver your application package to IHCDA ASAP! IHCDA, Attn: Homeownership Opportunities Department 30 South Meridian Street, Suite 1000 Indianapolis, IN 46204

#### **AVOID ADDITIONAL FEES DO NOT WAIT TIL LOCK EXPIRES!**

- Review of application package by IHCDA within 24-48 hours of receipt preliminary approval issued
- Lender request DPA
- Lender to remit CLOSING PACKAGE to IHCDA within 30 days of closing date
- Closing package reviewed by IHCDA and approved



# INCOME ELIGIBLITY – DETERMINING HOUSEHOLD INCOME

- IHCDA uses gross annual income to qualify each occupant for our programs
- Income is calculated from the occupant's gross YTD income off of their most current paystub and then annualized over 12-months
  - Along with the borrower & co-borrower, this includes all working individuals in the home
  - For any full time student, you must include his or her earned income up to a maximum of \$480 per year unless the student is the head of household
  - "Most current paystub" is considered as being within 30 days of the file submission



# INCOME ELIGIBLITY – SOURCES OF INCOME IHCDA REVIEWS

- W-2 wages, including part-time
- Seasonal Income
- Shift Differentials
- Overtime

income

Bonus Pay

- Child Support
- Alimony
- Tips
- Social Security
- Pensions
- Interest

<sup>\*\*</sup> Other income may apply. If you are unsure if IHCDA would use it or how it would be counted, please contact an IHCDA Underwriter for questions.



### **INCOME OPINIONS**

If you have trouble determining your borrower's income, IHCDA will do an income opinion

#### **INCOME OPINIONS ARE GOOD FOR 30-DAYS**

To receive an income opinion complete the "Income Opinion Request" form, found <a href="http://www.in.gov/ihcda/2508.htm">http://www.in.gov/ihcda/2508.htm</a> to HOD department @ 317.233.2558

- Current paystub and VOE for every applicable occupant
- 3-years tax transcripts

INCOME OPINIONS ARE ONLY GOOD FOR 30 DAYS FROM THE DATE GIVEN



## **TAX TRANSCRIPTS & GUIDELINES**

- IRS Tax Compliance Laws require each loan funded with proceeds from a taxexempt mortgage revenue bond be documented by 3-years of tax transcripts
- Review of the tax transcripts provides IHCDA with the following:
  - Prior homeownership
  - Income history
  - · Additional sources of income
  - Previous marriage
  - Residing children not showing on 1003 as dependents
  - Others that may be residing in the home
- Federal 4506T's are required on borrower/co-borrower and must be submitted at the time of application
- If a borrower did not file a tax return for all 3 years and/or any of the past years tax returns, they must complete the applicable section to the NH/MCC All
- W-2's are not required nor do they take place of a return
- IHCDA does not accept electronic filing forms



### RECAPTURE TAX

- Recapture tax is in accordance with Section 143(m) of the Internal Revenue Code for mortgages that are Federally Subsidized
- A "Notice to Borrower(s) of Maximum Recapture Tax and Method to compute Recapture Tax in Disposition of Home" is sent to each borrower once the loan has received final approval
  - IHCDA will not calculate the Recapture Tax amount, if any, upon sale of home
  - If borrower needs assistance they would need to consult their tax advisor of the IRS
- Borrowers must pay "Recapture Tax" when the following THREE conditions occur:
  - Property is sold within the first 9-years, of the closing date
  - A net profit on the sale of the property is made

# **AFFORDABILITY PERIOD**

#### Affordability period-

There will be a two (2) year affordability period associated with the Second Mortgage (the "Affordability Period"). If the Borrower refinances or sells the home within this period, the Second Mortgage is due and payable in full immediately.



### REMINDERS

- Borrower(s) must be a first-time homebuyer
  - Unless they are purchasing in a "Targeted Area"
  - Excludes Next Home (only)
- Home must be borrowers principal place of residence
- Property must be a "Single Family" residence includes condo's and townhomes
- TOTAL HOUSEHOLD income is used for IHCDA's qualifying purposes
- Non-occupant co-borrowers are not allowed, co-signers are allowed but they cannot take title
  - Co-signers may only sign the "Note"
  - Co-signers are not allowed on conventional products!!
- Borrowers could be subject to "Recapture Tax" if property is sold within the first nine (9) years ihcda OO®
  - MCC only



## **REMINDERS**

#### Conventional Products

- Do NOT allow:
  - Contract Sales
  - Manufactured Housing
  - Condominiums
  - Co-signors
  - Maximum LTV of 97%

#### Manufactured Housing

- FICO credit score greater than or equal to 660
- DTI of 45% or less
- NOT allowed on conventional products



### REMINDERS

- When changes are needed on a loan that has been reserved, how is this done?
  - Once a reservation is made, the form is locked and un-editable. When you require changes,
     email/fax over all revised documents that affect the change Excludes Next Home (only)
- When should files be sent in?
  - The loan must have closed and received final compliance approval from IHCDA prior to the commitment expiration dates
    - MCC: 90 days, Existing and 180 days, New Construction
    - Next Home & Next Home/MCC Combo: 60 days from beginning until purchase
- At what point should a closing package be submitted?
  - Closing packages are due to IHCDA within 30-days from the closing date. If a closing package is received 31-days or later, a late submission fee (LSF) will be applied to the loan
- When will my loan be purchased by US Bank?
  - Once the lender receives final approval from both IHCDA & US Bank <u>AND</u> the mortgage is in good standing, US Bank will then purchase the 1st mortgage loan from the lender



# MCC



**Indiana Housing & Community Development Authority** 

# WHAT IS A MORTGAGE CREDIT CERTIFICATE?

A Mortgage Credit Certificate allows the homebuyer to claim a tax CREDIT for a portion of the mortgage interest paid per year. The MCC is a dollar-for-dollar reduction against a borrowers federal tax liability

The tax credit is based on the first mortgage amount. The tax credit amount ranges between 20% and 35% of the interest paid on the mortgage each year. The remaining portion of the mortgage interest continues to qualify as an itemized tax deduction

- The maximum credit per year is \$2,000
- Annual amount the borrower receives will change as the mortgage loan amount decreases but the tax credit percentage never changes



# PROGRAM QUALIFICATIONS & UNDERWRITING

#### Qualifications

- First-time homebuyer
  - Exempt areas, "Targeted Counties" Definition of targeted county-an area of chronic economic distress as designated by the state and approved by the secretary of US Department of HUD
- Income eligible
  - Total household income
- Purchase Price limits (Acquisition Limits)

#### **Underwriting**

- IHCDA underwrites as Tax
   Compliance Underwriters that
   must follow IRS tax
   compliance regulations due to
   the tax-exempt status of
   funding
- IHCDA does not credit
   underwrite. As the lender, it
   is your determination on the
   borrowers ability to afford the
   home by income, job stability
   and creditworthiness!



**Indiana Housing & Community Development Authority** 

# **MCC CREDIT RATES**

Mortgage of \$50,000 & under 35%

Mortgage of \$50,001 – \$70,000 30%

MCC Credit Rates

Mortgage of \$70,001 - \$90,000 25%

Mortgage of \$90,001 & above 20%



# HOW DOES THE MCC BENEFIT THE BORROWER?

OPTION 1 -

The borrower may chose to take the tax credit at the end of the year, when they file their federal taxes

#### **Example**

 $110,000 \times 5.25\% \times 20\% = 1,155$ 

(MTG Amount x Interest Rate x MCC Rate = Eligible Tax Credit Amount)

The borrower would be able to claim \$1,155 as the tax credit

#### OPTION 2 -

The borrower may chose to revise their W-4 withholdings form to increase their take home pay. The tax credit is divided out over 12-months.

#### **Example**

\$110,000 x 5.25% x 20% = \$1,155/12 = \$96.25

(MTG Amount x Interest Rate x MCC Rate = Eligible Tax Credit Amount/12months = Additionally Monthly Income)

The borrower would increase their take home pay by \$96.25/month



# Next Home Next Home – MCC Combo FHA



### PROGRAM HIGHLIGHTS

- 650 minimum FICO score
- First-time homebuyers
  - Next Home/MCC Combo
- Current homeowners
  - Next Home ONLY
- Previous homeowners
  - Next Home ONLY
- FHA, 30 year fixed
- No Recapture

- DPA of 4 percent (FHA)
  - Closing cost
  - Prepaids
- DPA forgivable in 2 years
- No interest
- No payments
- Follow Investor guidelines
- Master Servicer is US Bank



# WHAT UNDERWRITING CRITERIA WILL IHCDA USE?

- 1. Area median income limits
- 2. Residency in the subject property
- 3. DPA not to exceed 4% (FHA)
- 4. Purchase Price cannot exceed appraised value
- 5. Verification of **all** household income
- 6. No funds back at closing

See IHCDA website for detailed list



# Next Home Next Home – MCC Combo Conventional



### **PROGRAM HIGHLIGHTS**

- 650 minimum FICO score
- Cannot hold ownership in any other Real Estate
- Conventional, 30 year fixed
- DPA of 3 percent
  - Closing cost
  - Prepaids

- DPA forgivable in 2 years
- No interest
- No payments
- Follow Investor guidelines
- Master Servicer is US Bank



# WHAT UNDERWRITING CRITERIA WILL IHCDA USE?

- 1. Area median income limits
- 2. Residency in the subject property
- 3. DPA not to exceed 3%
- 4. Purchase Price cannot exceed appraised value
- 5. Verification of **all** household income
- 6. No funds back at closing

See IHCDA website for detailed list



# PROGRAM LOCKS NEXT HOME & NEXT HOME/MCC COMBO LOANS

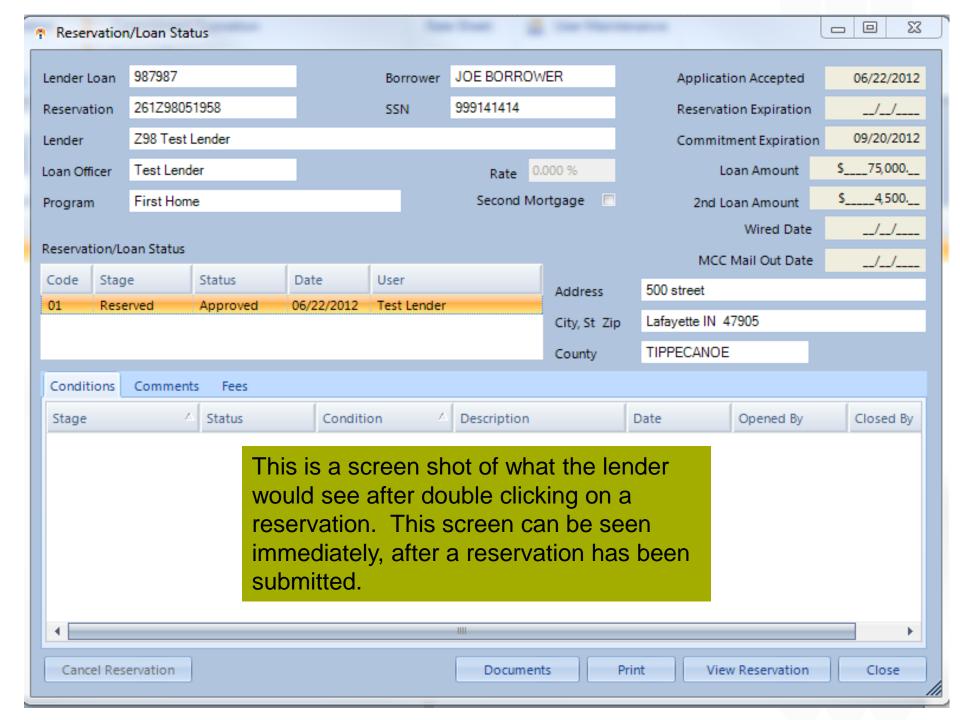
- Lender will lock loan for 60 days with IHCDA
- An extension can be granted in a 30 day increment at the discretion of the Master Servicer, as well as the fee for extending (only one extension per loan may be granted)
- If there is a property change, loan must be relocked\*\*
- Relocks must occur if a lock expires\*\*
- If cancellation occurs and is outside of original 60 day lock period, lender must relock\*\*
- If Borrower changes lender, loan must be relocked\*\*

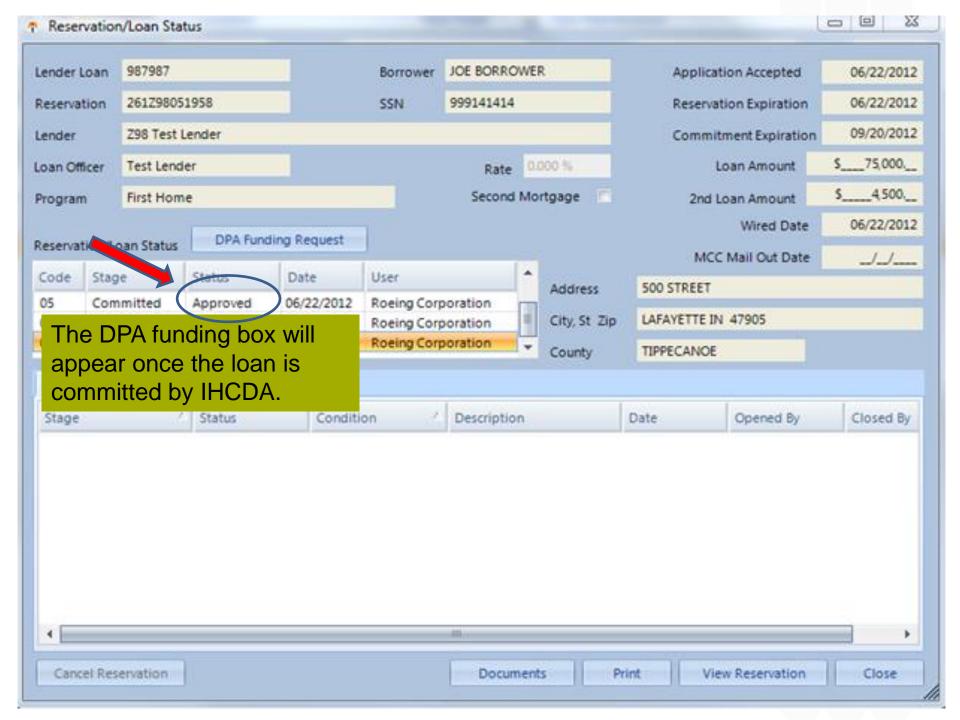


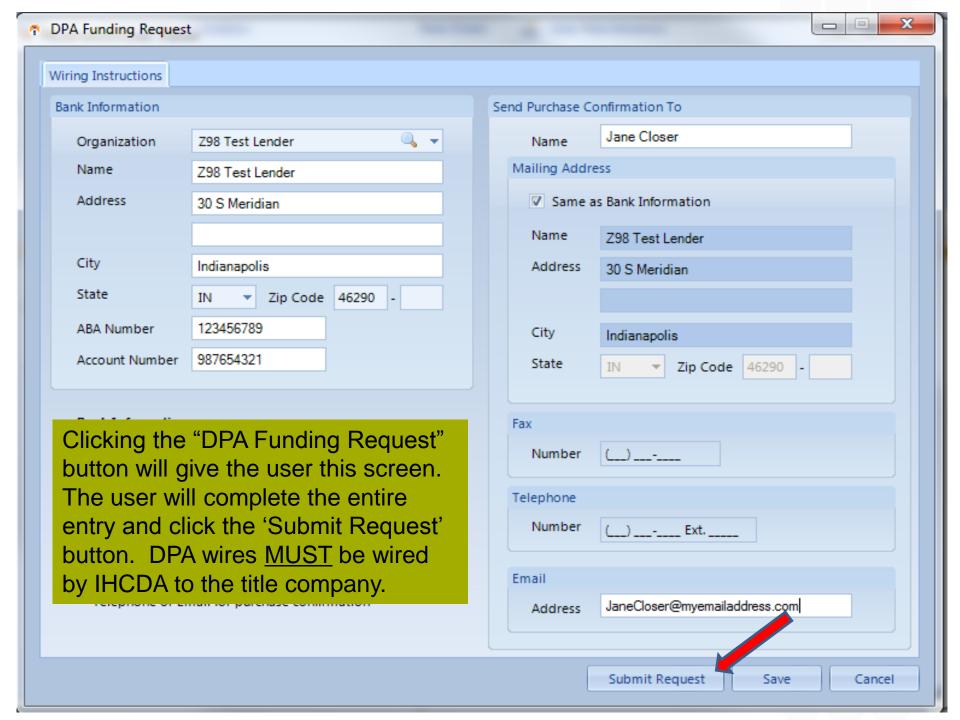


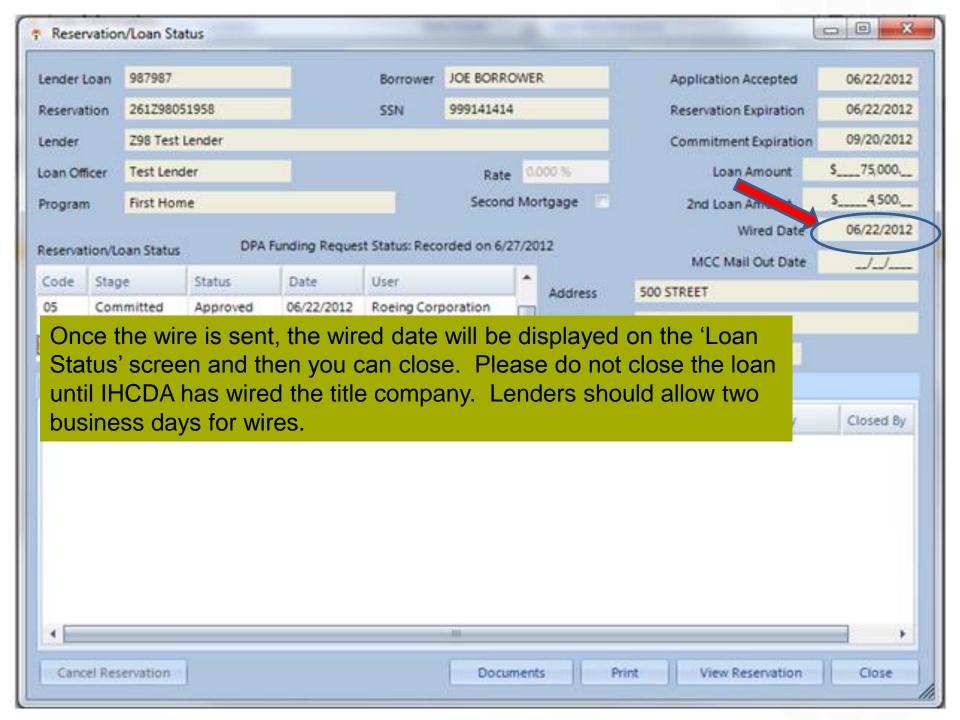
# Requesting the DPA funds









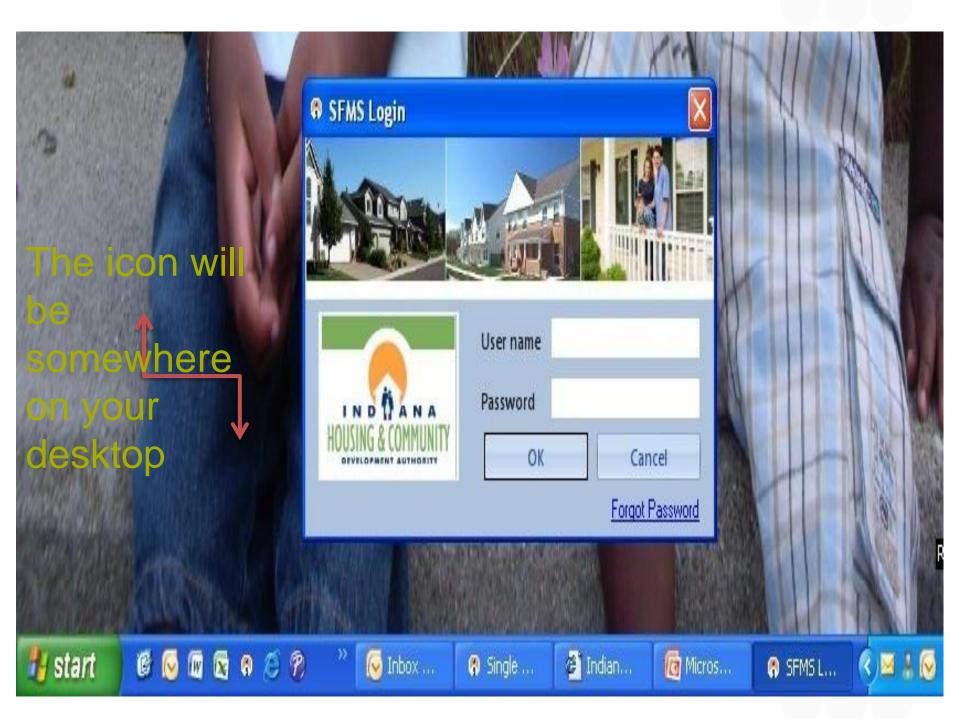


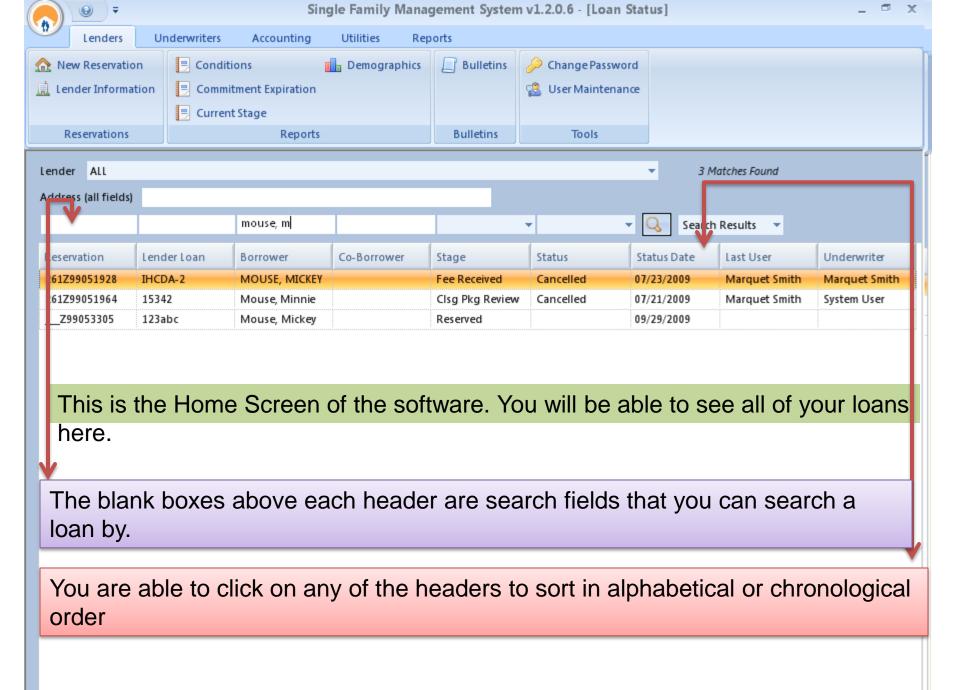
## THINGS TO REMEMBER

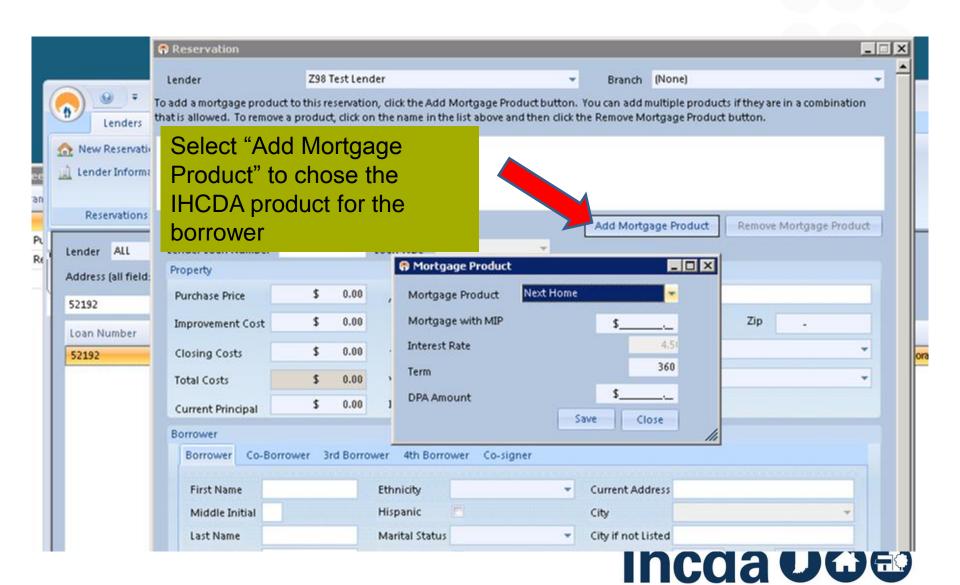
- Lenders must request the DPA funds to be wired once IHCDA has given committed approval to close
- IHCDA must wire the DPA funds.
- The DPA wire <u>must</u> be sent to the title company
- Lenders cannot close any loans without the wire being table funded by IHCDA
  - If a lender closes without IHCDA table funding the loan, the loan is ineligible to go through with an IHCDA program – No exceptions
- DPA wires take 48-72 business hours to arrive at the title company once the request is received
   ihcda O@

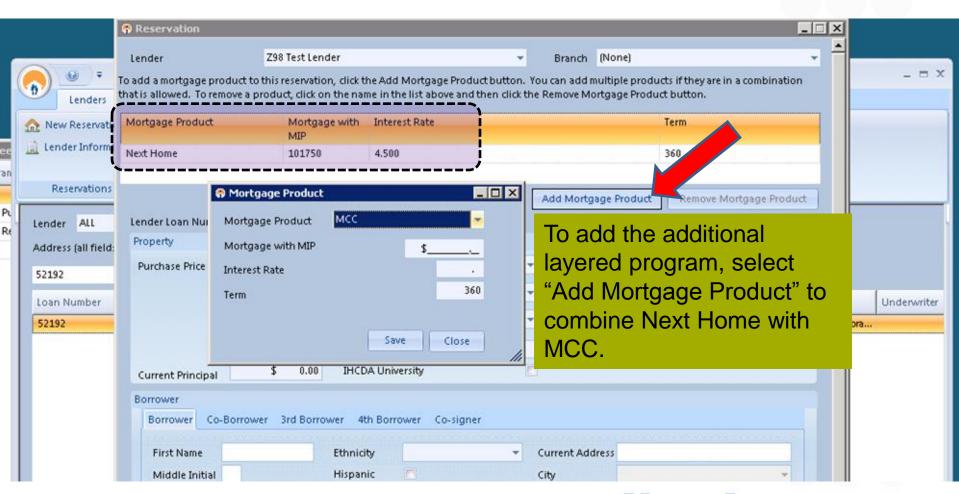
## **Using IHSF Database**



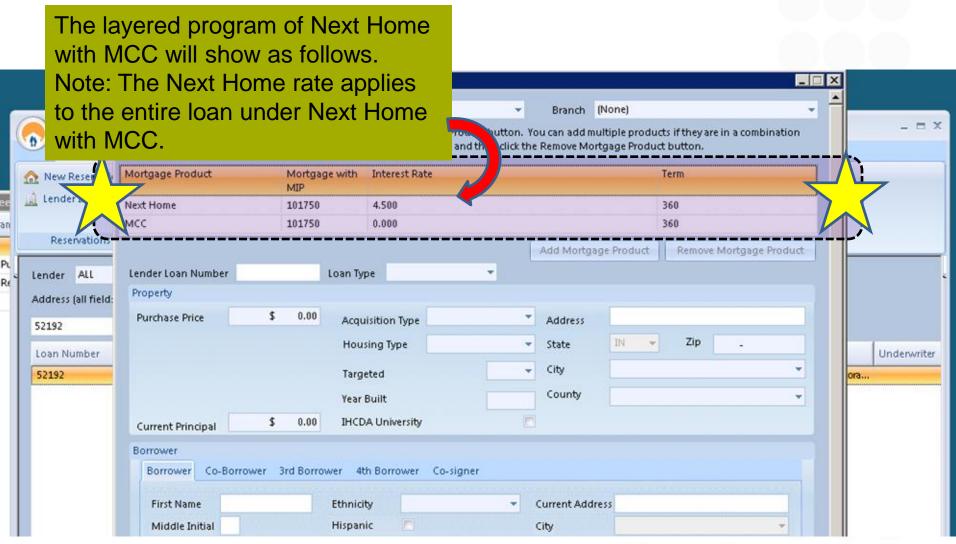




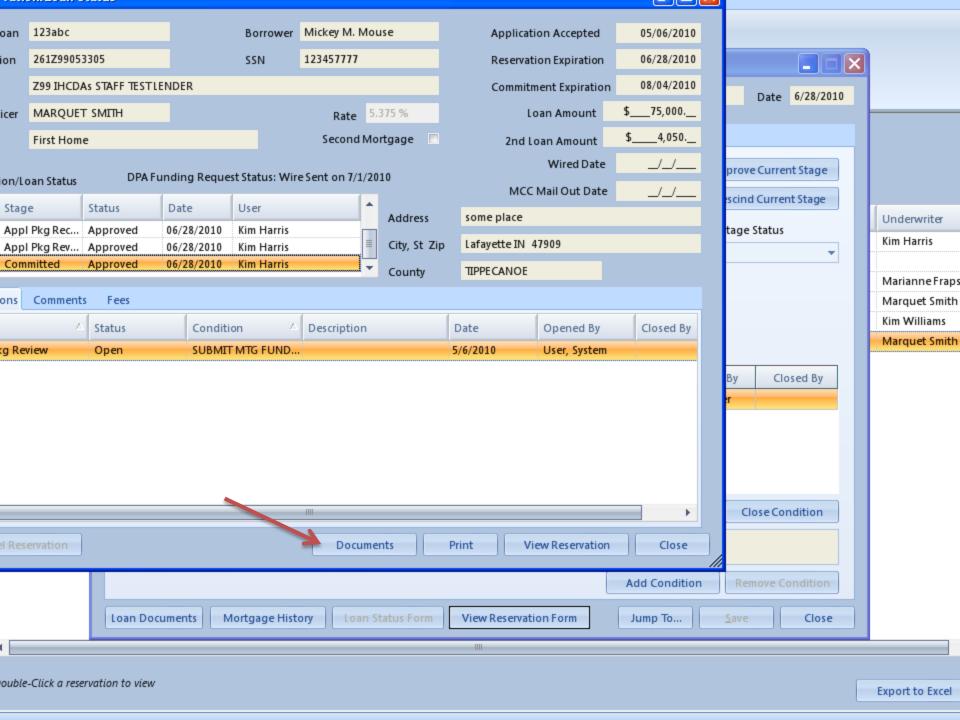


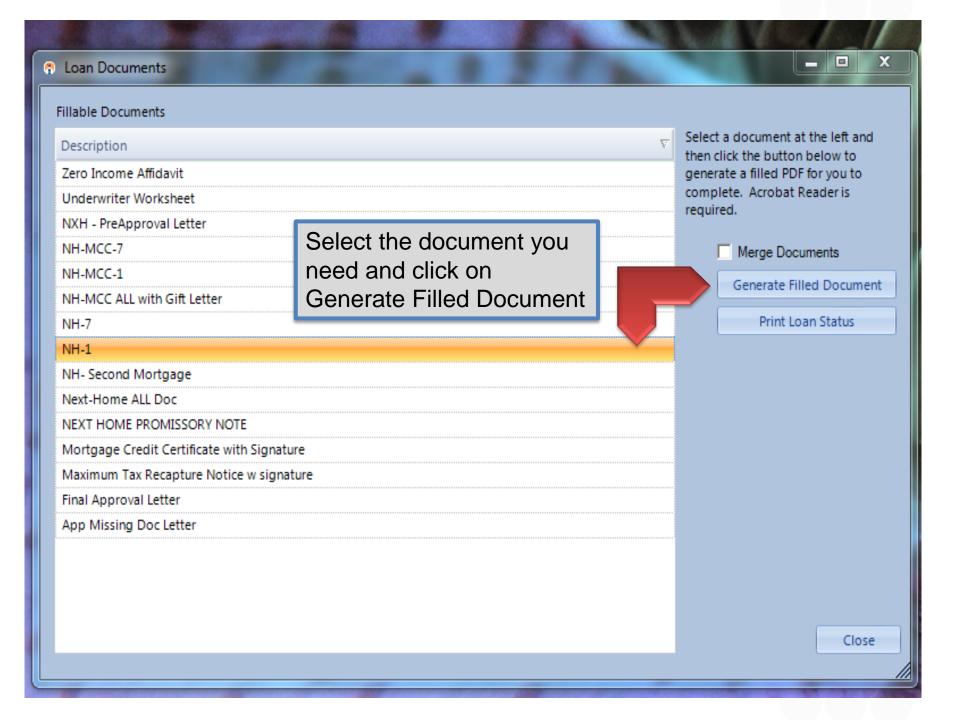


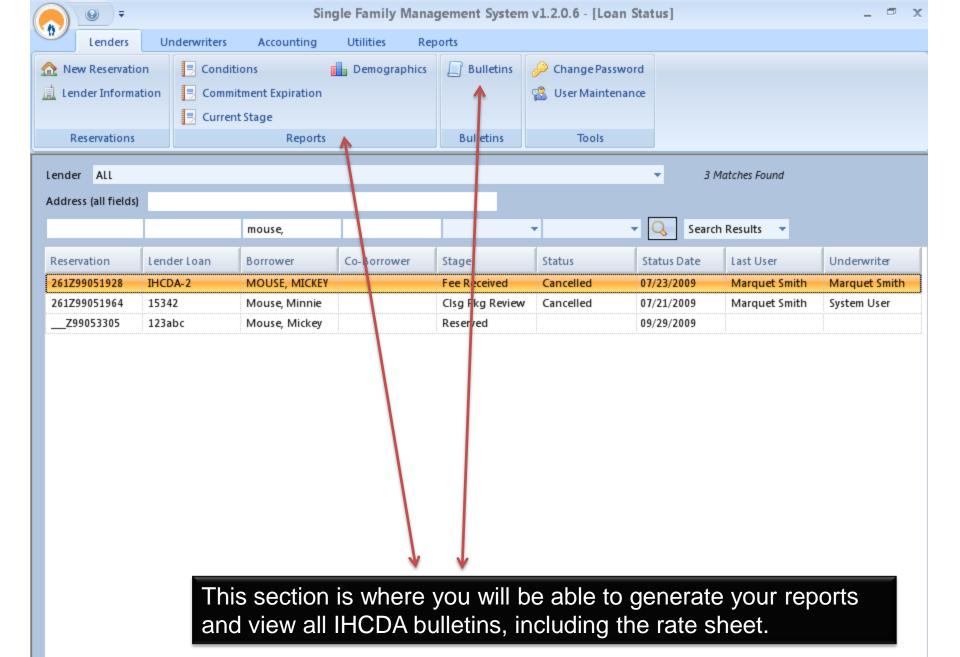








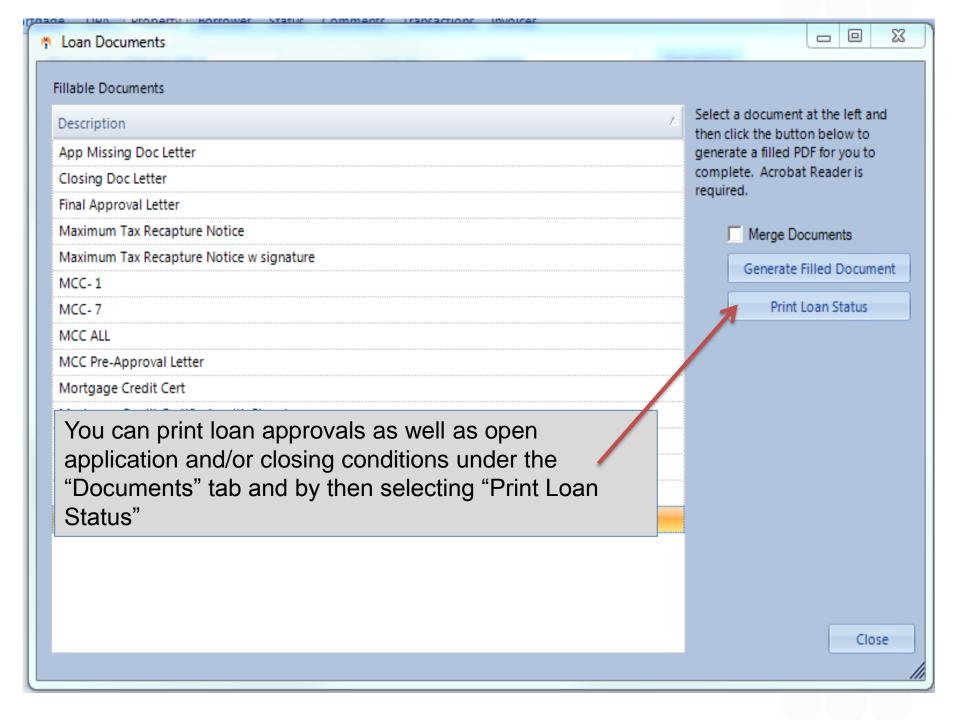




## **UNDERSTANDING CONDITIONS**

- Our goal, as HOD Underwriters, is to always try to make all conditions clear and understandable.
  - If you do not understand a condition, you may contact the files specific underwriter, as we are always willing to explain what is being asked for
- Allow 24-48 hours for conditions to be reviewed.
- Conditions are preferred to be emailed directly to the underwriter, unless original signatures are required





## **QUESTIONS**



**Indiana Housing & Community Development Authority**